

Internal Revenue Service
Tax-Exempt & Government Entities Division
Office of Exempt Organizations
Draft Form 990 Redesign- Schedule R
June 14, 2007

Rationale

Schedule R captures the increasingly complex organizational structures of tax-exempt organizations and attempts to improve transparency with respect to such structures. It separates related entity reporting into the various types of tax entities (disregarded, exempt, tax partnership, tax corporation, or trust) so that information specific to relationships with each type of tax entity (for example, unrelated business income tax implications relating to partnership or S corporation investments) may be asked in a more organized fashion.

Overview

- Schedule R combines the following:
 - Form 990, Part IX – Information Regarding Disregarded Entities and Taxable Subsidiaries
 - Form 990, Part XI – Information Regarding Transfers to and from Controlled Entities
 - Schedule A, Part VII – Information Regarding Transfers To and Transactions and Relationships With Noncharitable Exempt Organizations
 - Part I Disregarded Entities- expands on 2006 990 Part IX by requiring state or foreign country where organized, and direct controlling entity
 - Part II Exempt Organizations
 - expands on 2006 Form 990, Line 75c and Schedule A Part VII by requiring nature of activities, state or foreign country where organized, public charity status, and direct controlling entity
 - express description of relationship eliminated
 - Part III Partnerships - expands on 2006 Form 990, Line 75c and Part IX by requiring state or foreign country where organized, direct controlling entity, type of predominant income, disproportionate allocations, UBTI, and whether the EO is a general or managing partner; express description of relationship eliminated
 - Part IV Corporations and Trusts
 - expands on 2006 Form 990, Line 75c and Part IX by requiring state or foreign country where organized, direct controlling entity, and type of entity (C corporation, S corporation, or trust)
 - express description of relationship eliminated
- Part V Transactions with Related Organizations differs from 2006 Form 990, Schedule A Part VII as follows:
- transactions between 501(c)(3)/4947(a)(1) organizations and noncharitable exempt organizations that are eliminated for those that are not related
 - types of transactions slightly expanded (mainly to capture direction of transaction, e.g., sale from organization to related organization)
 - column added to indicate payments of rent etc. from 512(b)(13) controlled entity

Internal Revenue Service
Tax-Exempt & Government Entities Division
Office of Exempt Organizations
Draft Form 990 Redesign- Schedule R
June 14, 2007

20XX Instructions for Schedule R

Purpose of Form

Who Must File

All organizations who answered "Yes" to Form 990, Part VII, lines 7a or 7b.

Relationships. An organization is a related organization if it stands in one or more of the following relationships to the organization:

- Parent—an organization that controls the organization
- Subsidiary—an organization controlled by the organization, including disregarded entities
- Brother/Sister—an organization controlled by the same person or persons that control the organization
- Supporting/Supported—(i) an organization that is a supporting organization of the organization within the meaning of section 509(a)(3), if the organization is a supported organization or (ii) an organization that is a supported organization within the meaning of 509(a)(3), if the organization is a supporting organization

Exception: Disregarded entities are treated as related organizations for purposes of reporting in Schedule R Part I, but not for purposes of reporting transactions with related organizations in Part V.

Definition of Control. In the case of taxable organizations (including passthrough entities), "control" means:

- ownership of more than 50% of the stock (by voting power or value) of a corporation,
- ownership of more than 50% of the profits or capital interest in a partnership,
- ownership of more than 50% of the profits or capital in a limited liability company, regardless of whether the entity is treated as a corporation or a partnership for federal tax purposes or the designation of the interests as stock, membership interests, or otherwise under state law,
- being a managing partner or managing member in a partnership or limited liability company which has three or fewer managing partners or managing members,
- being a general partner in a limited partnership which has three or fewer general partners,
- being the sole member of a disregarded entity, or
- ownership of more than 50% of the beneficial interest in a trust.

See Regulations sections 301.7701-2, 3, and 4 for more information on classification of corporations, partnerships, disregarded entities, and trusts.

In the case of nonprofit organizations, control means:

- power to appoint a majority of the organization's directors or trustees, or
- situation where a majority of the controlled entity's directors or trustees are trustees, directors, officers, employees, or agents of the controlling organization.

Internal Revenue Service
Tax-Exempt & Government Entities Division
Office of Exempt Organizations
Draft Form 990 Redesign- Schedule R
June 14, 2007

Control may be indirect. In other words, if the organization controls Organization A that in turn controls (under the definition of control above) Organization B, the organization will be treated as controlling Organization B. There may be multiple levels of controlled organizations.

Overview. Parts I through IV require identifying information on four types of related organizations: organizations treated for federal tax purposes as (I) a disregarded entity, (II) a tax-exempt organization, (III) a partnership, or (IV) a C or S corporation or trust. Part V requires information on transactions between the organization and related organizations other than disregarded entities.

Part I – Identification of disregarded entities

(A) Name and address. State the full legal name and mailing address of the disregarded entity.

(B) EIN. State the Employer Identification Number (EIN) of the disregarded entity, if it has one. A disregarded entity is not required to have its own separate EIN and generally must use the EIN of its sole member (it may use its own EIN for employment tax purposes).

(C) Nature of activities. Briefly describe the nature of the activities conducted by the disregarded entity.

(D) State or foreign country. List the U.S. State or foreign country (including U.S. possession) in which the disregarded entity is organized.

(E) Total revenue. State the amount of the organization's total revenue reported on Part IV, Statement of Revenue, that is attributable to the disregarded entity.

(F) End-of-year assets. State the amount of the organization's total assets reported on Part VI, Balance Sheet, that is attributable to the disregarded entity.

(G) Direct controlling entity. If the organization controls the disregarded entity in issue indirectly through one or more other disregarded entities, state the name of the entity that directly controls the disregarded entity in issue. Otherwise state "NA."

Part II – Identification of related tax-exempt organizations

(A) Name and address. State the related organization's full legal name and mailing address.

(B) EIN. State the related organization's EIN.

(C) Nature of activities. Briefly describe the nature of the activities conducted by the related organization.

(D) State or foreign country. List the U.S. State or foreign country (including U.S. possession) in which the related organization is organized.

(E) Exempt Code section. State the related organization's Code section of exemption (e.g., 501(c)(3), 501(c)(6), 527). An organization that claims exemption is treated as exempt for purposes of Schedule R.

(F) Public charity status. For related 501(c)(3) organizations, report their public charity status, using one of the number codes in Schedule A. If the related organization is a private foundation, use the designation "PF." If the related organization is a 509(a)(3) supporting organization, also

Internal Revenue Service
Tax-Exempt & Government Entities Division
Office of Exempt Organizations
Draft Form 990 Redesign- Schedule R
June 14, 2007

indicate I, II, III-FI, or III-O (for Type I, Type II, Type III functionally integrated, or Type III other, respectively). If the related organization is a governmental unit under section 170(b)(1)(A)(v) (including an Indian tribal government), use the appropriate number code in Schedule A. For purposes of Schedule R reporting, a foreign government that is a related organization is treated as a tax-exempt organization, regardless of whether it is actually exempt from federal income tax by treaty or otherwise. If the related organization is a foreign government, use the designation "FG."

(G) Direct controlling entity. If the organization controls the related organization indirectly through one or more other organizations, state the name of the organization that directly controls the related organization in issue. Otherwise state "NA."

Part III – Identification of related organizations taxable as a partnership

In this Part identify related organizations treated as a partnership for federal tax purposes. If the partnership is a related organization as a parent or brother/sister and the organization is not a partner or member in the partnership, then state "NA" in Columns (D), (H), (I), and (J).

(A) Name and address. State the related organization's full legal name and mailing address.

(B) Primary activity. Briefly describe the primary business activity conducted, or product or service provided, by the related organization (e.g., investment in other entities, low-income housing).

(C) State or foreign country. List the U.S. State or foreign country (including U.S. possession) in which the related organization is organized.

(D) Direct controlling entity. If the organization controls the related organization indirectly through one or more other organizations, state the name of the organization that directly controls the related organization in issue. Otherwise state "NA."

(E) Type of income. Classify the predominant type of partnership income as either related, investment, or unrelated. For this purpose, related income is income reportable under Column (B) of Part IV, Statement of Revenue, investment income is income reportable under Column (D), and unrelated income is income reportable under Column (C).

(F) Total income. State the total income of the related organization. Use the amount reported on the related organization's federal tax or information return for the year ending with or within the organization's tax year, if filed.

(G) End-of-year assets. State the total assets of the related organization. Use the amount reported on the related organization's federal tax or information return for the year ending with or within the organization's tax year, if filed.

(H) Disproportionate allocations. State "Yes" if the interest of any partner of the partnership (or any member of an LLC) in any item of income, gain, loss, deduction, or credit, or right to distributions was disproportionate to such partner's or member's investment in such partnership (or LLC) at any time during the tax year.

(I) Code V UBI amount on Box 20 of K-1. State the dollar amount, if any, listed as Code V (unrelated business taxable income) in Box 20 of Schedule K-1 to Form 1065 received from the related organization for its tax year ending with or within the organization's tax year. If no Code V is listed in Box 20, state "NA."

Internal Revenue Service
Tax-Exempt & Government Entities Division
Office of Exempt Organizations
Draft Form 990 Redesign- Schedule R
June 14, 2007

(J) General or managing partner. State "Yes" if the organization is a general partner of a limited partnership, or is a managing partner or managing member of a general partnership, LLC, or other entity taxable as a partnership. Otherwise state "NA."

Part IV – Identification of related organizations taxable as a corporation or trust

In this Part identify related organizations treated as a C or S corporation or trust for federal tax purposes.

(A) Name and address. State the related organization's full legal name and mailing address.

(B) Primary activity. Briefly describe the primary business activity conducted, or product or service provided, by the related organization (e.g., holding company, management company, rental housing).

(C) State or foreign country. List the U.S. State or foreign country (including U.S. possession) in which the related organization is organized.

(D) Direct controlling entity. If the organization controls the related organization indirectly through one or more other organizations, state the name of the organization that directly controls the related organization in issue. Otherwise state "NA."

(E) Type of entity. Use one of the following codes to indicate the tax classification of the related organization: C (corporation or association taxable under subchapter C), S (corporation or association taxable under subchapter S), or T (trust or estate taxable under subchapter J).

(F) Total income. State the total income of the related organization. Use the amount reported on the related organization's federal tax or information return for the year ending with or within the organization's tax year, if filed.

(G) End-of-year assets. State the total assets of the related organization. Use the amount reported on the related organization's federal tax or information return for the year ending with or within the organization's tax year, if filed.

(H) Percentage ownership. For related organizations taxable as corporations, state the organization's percentage of stock ownership in the corporation (total combined voting power or total value of all outstanding shares, whichever is greater). For related organizations taxable as trusts, state the organization's percentage of beneficial interest. In each case, the percentage interest is as of the end of the related organization's tax year ending with or within the organization's tax year.

Part V: Transactions With Related Organizations

Line 1. Check "Yes" in the appropriate boxes of Line 1 and report the details in Line 2 if the organization engaged in any of the transactions listed in Part V with a related organization (other than a disregarded entity).

Disregard the following transactions:

- 1) transactions between two organizations if the organization is described in section 501(c)(3) or 170(c) and the only transactions between the organizations were gifts or grants to the organization.

Internal Revenue Service
Tax-Exempt & Government Entities Division
Office of Exempt Organizations
Draft Form 990 Redesign- Schedule R
June 14, 2007

2) transactions of a particular type ((A)-(P)) between two organizations where the aggregate amounts involved during the tax year do not exceed \$5000.

Transfer. A transfer includes any conveyance of funds or property, whether or not for consideration.

Line 2. Enter a separate line for each type of transaction ((A)-(P)) with a particular organization. Aggregate the transactions of a particular type with a particular organization. Add an attachment if additional space is needed.

(A) Name. State the full legal name of the related organization.

(B) Transaction Type. State the transaction type ((A)-(P)) listed in line 1.

(C) Amount involved. The amount involved in a transaction is the fair market value of the services, cash, and other assets provided by the organization during the tax year, or the fair market value received, whichever is higher.

(D) Description of transaction and of property involved. Briefly describe the transaction (e.g., sharing of X Organization's secretary and pro rata reimbursement to X). For transactions not for full and fair consideration, state or estimate the amount by which the value received by the organization is greater or less than the value provided. For transactions involving property, including sales, purchases, exchanges, rentals, other transfers, and sharing arrangements, briefly describe the property involved (e.g., land, facilities, vehicles, office equipment and furniture, other equipment, mailing lists, stocks, bonds, patents, copyrights).

(E) Interest, annuity, royalty, or rent from controlled entity. If the related organization is a controlled entity under section 512(b)(13), then state whether the line item involves payment of interest, annuities, royalties, or rents to the organization.